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Ms. Mary Levine
Acting Director of Legal Affairs
Michigan State Housing Development Authority
P.O. Box 30044
Lansing, MI 48909

Dear Ms. Levine:

I am writing to provide comments on the proposed Qualified Allocation Plan for the LIHTC Program. Through the course of my career, I have been involved with affordable housing in the public, nonprofit, and for-profit sectors. I have experience on the lending side, the syndication side, the developer side, and the asset management side. I helped to develop two transitional housing facilities, and have overseen the operations of one of these for the last twelve years. I would describe myself today as a socially conscious, profit motivated developer of affordable housing.

It appears that MSHDA has concentrated on the language in the code and the Enabling Act to justify establishing the QAP as the main vehicle for achieving certain social goals. I would broadly characterize these goals as eliminating homelessness, helping those with Special Needs, helping the poorest, eliminating blight, and establishing vibrant communities with economic diversity. I do not question the worthiness of those goals. However, I do question using the only resource available to developers for providing affordable housing to try to achieve them.

I also question whether the goals will actually be accomplished by the proposed QAP. Over the last few years, funds from HUD for the provision of services has decreased, not increased. It has been directed specifically to permanent supportive housing, which will fit in fine with the Supportive Housing projects. Where there is a certain mass of residents in need of services, I think that it sets the stage for the service provider to operate most efficiently, and to deliver a high quality of service. In supportive housing projects, the owner is in partnership with the service provider to work out tenant related problems.

However, when ten percent of an owner's units are dedicated to Special Needs (undefined at this point) due to a mandate, there will be problems created by the population's needs that the occasional service visit may not address. An owner cannot allow these tenants to operate under different rules than the non-service population. Deals today are so tight that properties will struggle to deal with high turnover costs. Vacancies must be filled within 30 days. What about Tenant Selection Criteria and Fair Housing issues?

To be successful, service providers need enough funding to appropriately respond to clients' needs. There may need to be intensive services for a few weeks, until a family is stabilized. This requires funding, and I question where the providers are going to find all of this funding since the funds have been fairly finite in the past. Property budgets will not be able to support the cost of services.

While I'm speaking about budgets, I would like to address feasibility issues. There is a reference in Section I. E. of the draft QAP to MSHDA-administered vouchers. This section may lead one to believe that vouchers will be a part of the plan to address the deep targeting that the plan requires. I certainly hope that vouchers are planned because there is no way that small and modestly sized and non-urban properties will be able to support rents targeted below 50% of median income without them. The language states that the award of LIHTC under the QAP satisfies the process for selection and then that MSHDA will review before awarding project based vouchers. I do not see how one can put in an application for LIHTC without knowing whether the deal will have PBV or not. How could one risk not getting vouchers and know whether the deal is feasible?

Getting back to the goals that are driving the QAP, historically, MSHDA has used programs to promote various social goals. It is important, though, to make sure that the method achieves the goal. The requirement to pay prevailing wages is an example where the implementation will require a lot of additional cost, but will not add commensurate value. In the past when I have administered federal funds that required the use of prevailing wage, I most often found that the wages being paid did not differ much from the market. One could assume that contractors want to attract skilled labor. What the requirement did accomplish was to eliminate smaller contractors who could not supply the required paperwork. In effect, the requirement adds the cost of administration without any added value.

Regardless of how the prevailing wage matter is handled, it simply cannot be tied to the delivery of the 8609's. How would a syndicator manage the risk of not knowing whether a deal would be in compliance? All of the equity will be delayed, forcing bridge financing at extra cost, and adjusters could be applied if 8609's are delayed. There will be disputes between MSHDA and the developer about what constitutes good efforts and problems with paperwork. There will be long delays for decisions to be issued. All of this puts risk at very high levels for all involved. MSHDA must find another avenue to promote this goal.

Another MSHDA goal seems to be forcing competition for syndication, but market forces adequately accomplish this. Most developers test the market occasionally, but recognize that their limited partner is a partner, and that the relationship may overrule simple price. Does MSHDA intend to decide with whom the developer should partner? If not, why create a system that will discourage interest from potential investors who may think they are doing busy work for MSHDA? Give developers some credit for knowing the issues of their own deal. With all of the special feasibility issues created by the QAP, developers are going to need to develop special relationships with syndicators who can understand them.

Lastly, I would like to comment on whom the MSHDA goals do not address. The people left out of the QAP targeting include the working poor who do not live in southeast Michigan or eleven other cities, and residents who live in potential preservation deals that do not work with tax exempt financing.

With so much of the credits committed to certain areas considered distressed, there is no room for deals that try to provide housing in areas that are otherwise too expensive for people with low paying jobs. While most of these can be financed with bond financing due to higher potential rents, charging the higher rents limits the people who can live there, and can limit the feasibility due to a narrow income band. Why not open these deals up to greater equity participation to create greater feasibility and to serve lower income people?

Regarding preservation, it seems MSHDA is trying to push all deals to bond financing with 4% credits. Has MSHDA not considered that some preservation deals simply do not work with bond financing? Rural deals and other small deals will never meet the 50% test, nor can 4% credits adequately cover the costs of the deal. I am working on a couple of deals right now that can not use the Preservation Program because the Preservation Loan that would be needed to cover the gap creates debt that will exceed the value of the property before it is paid off. Every preservation deal cannot use MSHDA financing, and apparently MSHDA only cares to support preservation that it finances.

I recently reviewed the QAPs of some other states and was impressed with Pennsylvania's simpler approach to targeting. It has set up regions within the state and directs a certain percentage of credits to each region. This would allow simple adjustments every couple of years based on where more low income housing may be needed, but keeps the credits available throughout the entire state. I am not clear why MSHDA has established regions for rural applications other than to limit the number of applications it receives. It would seem that putting a two project limit on each developer already accomplishes that.

Another suggestion I would like to make concerns the basic structure of lottery versus pointing. The approach has been an all or none in the past, but I suggest that the social goals be achieved through a pointing process, and that part of the credit be reserved for a lottery system. This way a certain percentage of the deals will remain more financially feasible, and developers with more social agendas will compete for points on deals that may require more contributions from them over the long run.

Thank you for the opportunity to contribute my thoughts on this important matter. I hope that MSHDA recognizes that the industry is concerned about fairness and implementation. It would be unfortunate if credit goes unused while we all try to see how deals can afford to pay their debt while meeting all of the socially prescribed goals.

Sincerely,

Anne L Danosky

Anne L. Danosky
Vice President of Acquisitions

cc: Governor Jennifer M. Granholm
Majority Floor Leader Steve Tobocman
Representative Mike Lahti
House Speaker Andy Dillon
Senator Mark Jansen